



THE CITY OF SAN DIEGO

M E M O R A N D U M

DATE: May 20, 2009

TO: Honorable Members of the City Council

FROM: Mary Lewis, Chief Financial Officer *Mary Lewis*

SUBJECT: Revenue Audit Program and Response to FY2010 Budget Discussion

I am sending you a report for your information on the activities of the Revenue Audit Program under the Office of the City Treasurer that describes the audits concluded this quarter (as of March 31, 2009) and fiscal year to date, including revenues recovered.

In addition, in response to the budget discussions regarding the Revenue Audit Program, the City Treasurer has added background information on the Program's results over the past five fiscal years (2004 through 2008) that include the number of audits completed and the revenue recovered as a result of these audits.

Please contact me or Gail Granewich, City Treasurer, if you have additional questions.

Mary Lewis

ML/slh

cc: Honorable Mayor Jerry Sanders
Jay M. Goldstone, Chief Operating Officer
Andrea Tevlin, Independent Budget Analyst
Kevin Casey, Director of Council Affairs
Eduardo Luna, City Auditor
Gail Granewich, City Treasurer ✓

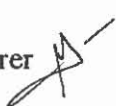


THE CITY OF SAN DIEGO

MEMORANDUM

DATE: May 15, 2009

TO: Mary Lewis, Chief Financial Officer

FROM: Gail R. Granewich, City Treasurer 

SUBJECT: Revenue Audit Program – Quarterly Report
and Response to FY 2010 Budget Discussions

Quarter Ending March 31, 2009 – Audits Completed

During the third quarter of Fiscal Year 2009, the Office of the City Treasurer's Revenue Audit Program completed 26 audits, totaling \$279,606 in audit deficiencies. The 26 audits included 20 tax-related audits and 6 lease audits, including:

Transient Occupancy Tax/Business Tax Audits

- W San Diego
- 500 West Hotel
- Doubletree Del Mar
- Ramada San Diego North
- Two (2) non-compliant vacation rental properties

Lease Audits

- Ace Parking operations at Qualcomm Stadium
- Canyonside Stables, LLC
- Crystal Pier Motel, Inc.
- Seaforth Sportfishing Corp.
- Wave House Belmont Park
- Rancho Santa Fe Polo Club

Quarter Ending March 31, 2009 – Recoveries

During the third quarter of Fiscal Year 2009, the City received \$200,006 in recoveries on performed audits, including \$57,636 received by the Office of the City Treasurer's Delinquent Accounts Collection Division.

Current Quarter (Ending June 30, 2009)

Major TOT and lease audits expected to be completed during the current quarter include:

- Residence Inn Mission Valley
- Holiday Inn Mission Valley
- Sheraton Suites San Diego
- Sheraton Suites Shelter Island
- San Diego Visitor Information Center
- SDSU Football use of Qualcomm Stadium
- KenCal Ownership (Hyatt Islandia)
- NextG Networks (Use Permit)

2009 Fiscal Year-to-Date Totals

Revenue audits completed and recoveries through the third quarter ending March 31, 2009:

Table A

Type	Audits Completed	Audit Hours	Audit Deficiencies	Recoveries
TOT	71	2,652	\$537,142	\$382,035
Lease/Franchise	15	1,707	\$199,472	\$168,937
Requested (BT)	5	14	\$4,940	\$3,160
Total	91	4,373	\$741,554	\$554,132

As a reminder, of the 65 revenue audits completed during the first and second quarters of this fiscal year, some of the more significant audits included:

Transient Occupancy Tax/Business Tax Audits

- Western Inn Old Town
- Bahia Hotel
- Studio 819
- Staybridge Suites Sorrento Mesa
- Holiday Inn Express
- US Grant Hotel
- Hotel Occidental
- Staybridge Suites Carmel Mountain
- Embassy Suites La Jolla
- Holiday Inn on the Bay

Lease Audits

- San Diego Chargers Football Company
- Wesco Sales Corp.
- Paradise Café II
- San Diego Bowl Game Association
- The Lodge at Torrey Pines
- Catamaran Hotel (and two associated operations)

Staffing Updates

The Revenue Audit Program continued to operate with two open positions during the third quarter. Requests to fill these positions were approved and one vacancy was filled in late April, the other is expected to be filled by early June.

Response to Councilmember Young's Fiscal Year 2010 Budget Recommendation

In a memorandum dated April 30, 2009, Councilmember Anthony Young requested "the Mayor and City Auditor to review and take action on transferring the functions of the Revenue Audit and Appeals division of the City Treasurer's office into the Office of the City Auditor." He further indicated that savings would result from this consolidation and that the revenue audit function should be under the Independent Auditor.

This section of the report provides background on the Revenue Audit Program and results from the prior five (5) years.

Background

The Office of the City Treasurer's Revenue Audit Program has been performing audits of revenue-generating businesses within the City limits since the mid-1960s. Originally, the program was part of the Audit Division within the department of the Auditor and Comptroller. In June of 2006, and consistent with City Charter §45, the Revenue Audit Program was transferred under the oversight of the City Treasurer. City Charter §45 states in part:

The Treasurer shall issue notices for and collect...miscellaneous taxes, fees, assessments, licenses and privilege charges as may from time to time be assigned to him or her. He or she shall maintain a continuous inspection of the records and accounts of such taxes, licenses and privilege charges in order to effectuate their collection.

As indicated in **Table B** below, many other large jurisdictions place the revenue audit function within its main revenue receiving department.

Table B

Municipality	Location of Revenue/Tax Audit Function	Municipality	Location of Revenue/Tax Audit Function
Los Angeles	Office of Finance	Phoenix	Finance Department
Chicago	Revenue Department	San Antonio	Finance Department
Houston	Finance Department	San Jose	Finance Department
Philadelphia	Revenue Department	San Francisco	Treasurer and Tax Collector

The transfer of the Revenue Audit Program to the Office of the City Treasurer also cleared the way for the Office of the City Auditor to be established as a separate, independent department focused on the operations of the City as set forth in City Charter §39.2. The operations, focus, procedures and audit techniques of the revenue audit function differ from the City Auditor's role and responsibility. Revenue auditors focus on whether or not revenues paid to the City have been made correctly, whereas internal auditors focus on overall efficiencies and controls of an organization.

The move to the Office of the City Treasurer has in fact streamlined revenue audits. The Revenue Audit Program now exists within the department which, as required by City Charter, administers the City's tax codes and receives lease and franchise fee payments on behalf of administering departments.

As referred to in City Charter §45, the City Treasurer's Revenue Audit Program exists to "...maintain a continuous inspection of the records and accounts..." of the taxes, rents and fees paid to the City. These include the Transient Occupancy Tax paid by all hotels, motels and property management companies within the City; rent payments made by all of the City's percentage rent lessees; and franchise fees paid by all waste haulers, cable companies and utilities operating within the City limits. Audits are also done on certain business tax payments on an as-needed basis only, due to the high rate of compliance in the department's FTB Compliance Program.

A typical revenue audit involves reviewing financial statements and general ledgers; testing detailed accounting records for accuracy and reliability; confirming compliance with governing sections of the Municipal Code and lease or franchise agreements; and making recommendations to administering departments based on audit findings.

Over the past five years, through detailed and thorough revenue auditing and analysis, the Revenue Audit Program has brought in the following recoveries:

Table C

Year	No. of Audits	Audit Hours	Recoveries	FTEs
2008	98	4,706	\$1,367,209	5
2007	136	5,648	\$2,474,149	5
2006	118	6,099	\$1,704,618	5
2005	165	8,603	\$1,530,616	6
2004	174	8,601	\$1,194,404	6

The main types of revenues audited by this program and included in the summary results in **Table C** are:

Transient Occupancy Tax

The City imposes a Transient Occupancy Tax of 10.5% on hotel guests for the privilege of occupying a room in a hotel, motel, RV park, or vacation rental within the City limits. Operators of these establishments have the responsibility to collect the tax and remit it to the City. Revenue audits are performed on the payments made by these operators. These audits also include a review of the recently adopted Tourism Marketing District fee of 2%, assessed on revenues of hotels with 70 or more units.

Authority to Audit: SDMC §35.0121

Number in Audit Population: 308

Frequency of Audits: Every Two to Three Years

Table D

Fiscal Year	No. of Audits	Audit Hours	Total Recoveries
2008	86	3,378	\$846,661
2007	95	3,787	\$2,095,083
2006	73	3,154	\$638,127
2005	106	3,855	\$435,839
2004	115	5,211	\$621,097

Percentage Lease Agreements

The City has a number of lease agreements with businesses operating on City owned land. The bulk of these lease agreements exist at Mission Bay and the San Pasqual Valley. The lease agreements are administered by the City's Real Estate Assets Department. Additionally, the City has a few tenant agreements with businesses operating within Qualcomm Stadium. Revenue audits are performed on each of these lessees and permittees as well.

Authority to Audit: Within Individual Lease Agreements
Number in Audit Population: 87
Frequency of Audits: Every Two to Four Years

Table E

Fiscal Year	No. of Audits	Audit Hours	Total Recoveries
2008	11	1,133	\$350,150
2007	25	1,471	\$237,783
2006	29	2,411	\$257,750
2005	44	4,448	\$991,314
2004	40	2,954	\$516,192

Franchise Agreements

Franchise Fee payments are made to the City by utility companies, waste haulers and cable companies operating within the City limits. Revenue audits are performed on each of these franchisees.

Authority to Audit: Within Individual Franchise Agreements
Number in Audit Population: 18
Frequency of Audits: Every Three to Four Years

Table F

Fiscal Year	No. of Audits	Audit Hours	Total Recoveries
2008	1	195	\$170,398
2007	2	323	\$112,116
2006	3	481	\$760,241
2005	3	242	\$86,044
2004	4	314	\$35,432

Revenue auditing has a specialized focus, requiring specific training and accounting expertise. Revenue Audit Manager, Douglas Enger, is a Certified Public Accountant and has worked exclusively conducting revenue audits for the City of San Diego for 12 years.

Mary Lewis
May 15, 2009
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The total recoveries achieved by the Revenue Audit team over the past five years show that the Revenue Audit Program is providing an outstanding return to the City under the Office of the City Treasurer where the Charter required focus on revenue is paramount. I have a high performing, well qualified team. I do not believe that relocation of the revenue audit function under the City Auditor would result in additional efficiencies, cost savings or an increase in revenue.

cc: Elizabeth Correia, Financial Operations Manager
Douglas Enger, Revenue Audit Manager



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JUL 24 2009
City Treasurer

THE CITY OF SAN DIEGO

M E M O R A N D U M

DATE: July 22, 2009

TO: Honorable Members of the City Council

FROM: Mary Lewis, Chief Financial Officer *Mary Lewis*

SUBJECT: Revenue Audit Program: Fiscal Year 2009 Fourth Quarter Report and
Fiscal Year 2010 Audit Schedule

Attached for your information is the Fourth Quarter Report (April 1st through June 30th 2009) for the Revenue Audit Program under the City Treasurer. In addition, the Fiscal Year 2010 Revenue Audit schedule is also included.

Please contact me or Gail Granewich, City Treasurer, if you have any questions.

Mary Lewis

ML/slh

cc: Honorable Mayor Jerry Sanders
Jay M. Goldstone, Chief Operating Officer
Andrea Tevlin, Independent Budget Analyst
Audit Committee Members
Kevin Casey, Director of Council Affairs
Eduardo Luna, City Auditor
Gail Granewich, City Treasurer ✓



THE CITY OF SAN DIEGO

MEMORANDUM

DATE: July 15, 2009

TO: Mary Lewis, Chief Financial Officer

FROM: Doug Enger, Revenue Audit Manager *DE*
via Gail R. Granewich, City Treasurer *GR*

SUBJECT: Revenue Audit Program – Quarterly Report Q4 '09

Quarter Ending June 30, 2009 – Audits Completed

During the fourth quarter of Fiscal Year 2009, the Office of the City Treasurer's Revenue Audit Program completed 27 audits, totaling \$410,793 in audit deficiencies. The 27 audits included 20 Transient Occupancy Tax (TOT), three (3) Business Tax and four (4) lease audits, including:

Transient Occupancy Tax and Business Tax Audits

- Hyatt Islandia
- Holiday Inn Mission Valley Stadium
- Residence Inn Mission Valley
- Town and Country Resort
- The Pidgeon Company (property managers)
- Bristol Court Hotel
- Two (2) non-compliant vacation rental properties

Lease Audits

- KenCal Ownership (Hyatt Islandia)
- National Air College
- San Diego State University (Aztec Football)
- Next G Networks (Right-of-Way Permit)

Quarter Ending June 30, 2009 – Recoveries

During the fourth quarter of Fiscal Year 2009, the City received \$234,831 in recoveries on performed revenue audits, which includes \$107,832 in TOT and Business Tax, \$62,390 in lease rent and \$64,609 in franchise fees.

Current Quarter (Ending September 30, 2009)

Major TOT, lease and franchise audits expected to be completed during the current quarter include:

- San Diego Gas & Electric (franchise fees)
- Sheraton Suites San Diego
- Sheraton Harbor Island
- The Sofia Hotel
- La Jolla Residence Inn
- Porto Vista Hotel
- Hilton San Diego Del Mar
- Westfield Corporation (North County Fair)

2009 Fiscal Year-to-Date Totals

Revenue audits completed and recoveries through the fourth quarter ending June 30, 2009:

Table A

Type	Audits Completed	Audit Hours	Audit Deficiencies	Recoveries
TOT	91	3,699	\$677,905	\$486,787
Lease	19	2,177	\$465,185	\$295,935
Requested (BT)	8	20	\$9,257	\$6,240
Total	118	5,896	\$1,152,347	\$788,962

As a reminder, of the 91 revenue audits completed during the first three quarters of Fiscal Year 2009, some of the more significant audits included:

Transient Occupancy Tax/Business Tax Audits

- Western Inn Old Town
- Bahia Hotel
- Staybridge Suites Sorrento Mesa
- US Grant Hotel
- Hotel Occidental
- Staybridge Suites Carmel Mountain
- Embassy Suites La Jolla
- Holiday Inn on the Bay
- W San Diego
- Doubletree Del Mar

Lease Audits

- San Diego Chargers Football Company
- Wesco Sales Corp.
- San Diego Bowl Game Association
- The Lodge at Torrey Pines
- Catamaran Hotel (and two associated operations)
- Seaforth Sportfishing
- Rancho Santa Fe Polo Club

FY 2010 Planned Audit Schedule

Please find attached to this report the Revenue Audit Program's schedule of planned audits for Fiscal Year 2010. The plan was produced by estimating the available audit hours for the year based on projected staffing levels, considering which routine audits are due during the next twelve months and adjusting for planned special audits.

One such special audit is a review of short-term vacation rentals we will undertake during the third quarter of the fiscal year. The majority of vacation rental properties throughout the City are rented through property management companies which we audit routinely. We have found, however, that there are a growing number of units offered for rent directly by the owner via the internet. Staff will perform a review of these properties, determine whether they have current TOT Certificates and follow-up with audits if not.

This year's plan calls for 133 completed audits during Fiscal Year 2010, including 93 TOT, 34 lease and six (6) franchise audits. We expect to accomplish a 13% increase in completed audits over last year. This is due to filling the two revenue auditor positions which have been vacant since December 2008.

Staffing Updates

The Revenue Audit Program continued to operate with one open position and one staff member assigned full-time to OneSD/SAP and other departmental accounting duties during the fourth quarter. The open position has been filled, with an expected start date in late July. The staff member currently assigned to other duties is expected to be auditing again in early August. This will return the program to full staffing of six auditors, including the Program Manager. The effect of full staffing is further quantified by comparing the total audit hours worked in Fiscal Year 2009 of 5,896 (Table A) to those planned for Fiscal Year 2010, or 7,975 audit hours (see attached).

cc: Elizabeth Correia, Financial Operations Manager



THE CITY OF SAN DIEGO

M E M O R A N D U M

DATE: October 15, 2009

TO: Honorable Members of the City Council

FROM: Mary Lewis, Chief Financial Officer *Mary Lewis*

SUBJECT: Revenue Audit Program: Fiscal Year 2010 First Quarter Report

Attached for your information is the First Quarter Report for Fiscal Year 2010 (July 1st through September 30th 2009) for the Revenue Audit Program under the City Treasurer.

Please contact either Gail Granewich, City Treasurer, or me if you have any questions.

Mary Lewis

ML/slh

cc: Honorable Mayor Jerry Sanders
Jay M. Goldstone, Chief Operating Officer
Andrea Tevlin, Independent Budget Analyst
Audit Committee Members
Kevin Casey, Director of Council Affairs
Eduardo Luna, City Auditor
Gail Granewich, City Treasurer



THE CITY OF SAN DIEGO

MEMORANDUM

DATE: October 14, 2009

TO: Mary Lewis, Chief Financial Officer

FROM: Doug Enger, Revenue Audit Manager
via Gail R. Granewich, City Treasurer

SUBJECT: Revenue Audit Program – Quarterly Report Q1 '10

Quarter Ending September 30, 2009 – Audits Completed

During the first quarter of Fiscal Year 2010, the Office of the City Treasurer's Revenue Audit Program completed 33 audits resulting in audit deficiencies totaling \$240,979. The 33 audits included 28 Transient Occupancy Tax (TOT), four (4) Business Tax, and one (1) Lease audit, including:

Transient Occupancy Tax

- Del Mar Hilton
- Sheraton La Jolla
- Western Inn – Old Town
- Sheraton Suites San Diego
- Coastal Choice Properties (property managers)
- Holiday Inn Bayside
- Homewood Suites
- One (1) non-compliant vacation rental property

Lease Audits

- San Diego Visitor Information Center, LLC

Quarter Ending September 30, 2009 – Recoveries

During the first quarter of Fiscal Year 2010, the City received \$214,415 in recoveries on performed revenue audits, which includes \$206,677 in TOT, \$6,823 in Business Tax, and \$915 in Lease rent.

Current Quarter (Ending December 31, 2009)

Major TOT, Lease, and Franchise audits expected to be completed during the current quarter include:

- San Diego Gas & Electric (Franchise Fees)
- Cox Communications (Franchise Fees)
- Driscoll Mission Bay, LLC (Lease)
- LHO Mission Bay Rosie Hotel, LP (Lease)
- Hotel Solomar (TOT)
- La Jolla Residence Inn (TOT)
- Westgate Hotel (TOT)
- Omni Hotel (TOT)
- Holiday Inn Otay Mesa (TOT)

2010 Fiscal Year-to-Date Totals

Revenue audits completed and recoveries through the first quarter ending September 30, 2009:

Table A

Type	Audits Completed	Audit Hours	Audit Deficiencies	Period Recoveries
TOT	28	1,163	\$235,758	\$206,677
Lease	1	64	\$915	\$915
Requested (BTax)	4	10	\$4,306	\$6,823
Total	33	1,237	\$240,979	\$214,415

Staffing Updates

The Revenue Audit Program is now fully staffed with six auditors, including the Program Manager. The two new members joined Revenue Audit in July, one coming from within the Office of the City Treasurer and the other transferred from the Comptroller's office. These staff members are now fully trained and conducting assigned audits independently.

cc: Elizabeth Correia, Financial Operations Manager



THE CITY OF SAN DIEGO

M E M O R A N D U M

DATE: January 28, 2010
TO: Honorable Members of the City Council
FROM: Mary Lewis, Chief Financial Officer *Mary Lewis*
SUBJECT: Revenue Audit Program: Fiscal Year 2010/Second Quarter Report

Attached for your information is the Second Quarter Report for Fiscal Year 2010 (October 1st through December 31st 2009) for the Revenue Audit Program under the City Treasurer.

Please contact me or Gail Granewich, City Treasurer, if you have any questions.

Mary Lewis

ML/slh

Attachment:

cc: Honorable Mayor Jerry Sanders
Jay M. Goldstone, Chief Operating Officer
Andrea Tevlin, Independent Budget Analyst
Audit Committee Members
Kevin Casey, Director of Council Affairs
Eduardo Luna, City Auditor
Gail Granewich, City Treasurer



THE CITY OF SAN DIEGO

M E M O R A N D U M

DATE: January 15, 2010

TO: Mary Lewis, Chief Financial Officer

FROM: Doug Enger, Revenue Audit Manager *DE*
via Gail R. Granewich, City Treasurer *A*

SUBJECT: Revenue Audit Program – Quarterly Report Q2 '10

Quarter Ending December 31, 2009 – Audits Completed

During the second quarter of Fiscal Year 2010, the Office of the City Treasurer's Revenue Audit Program completed 26 audits resulting in audit deficiencies totaling \$618,105. The 26 audits included 20 Transient Occupancy Tax (TOT), two (2) Business Tax, three (3) Lease audit, and one (1) Franchise audit including:

Transient Occupancy Tax

- San Diego Hilton Resort
- The Residence Inn La Jolla
- The Omni Hotel
- Se San Diego
- Holiday Inn Express – Otay Mesa
- The Westgate Hotel
- Orchard Apartments
- One (1) non-compliant vacation rental property

Lease and Franchise Audits

- Downtown Johnny Brown's
- Torrey Pines Club Corp
- SDG&E – Mt. Woodson Flat Rent Adjustment
- SDG&E – Franchise Fees

Quarter Ending December 31, 2009 – Recoveries

During the second quarter of Fiscal Year 2010, the City received \$123,671 in recoveries on performed revenue audits, which includes \$123,400 in TOT and, \$270 in Business Tax.

Current Quarter (Ending March 31, 2010)

Major TOT, Lease, and Franchise audits expected to be completed during the current quarter include:

- Time Warner Cable (Franchise Fees)
- Cox Communications (Franchise Fees)
- Driscoll Mission Bay, LLC (Lease)
- Witman Ranch (Lease)
- Hard Rock Hotel (TOT)
- San Diego Marriott Hotel & Marina (TOT)
- Doubletree Hotel Mission Valley (TOT)
- The W Hotel (Close-out TOT)

In addition, the Revenue Audit Program will begin a review of TOT payments from vacation properties offered for rent through individual property owners rather than through property managers. Audits will be performed on owners based on the findings of the review.

2010 Fiscal Year-to-Date Totals

Revenue audits completed and recoveries through the second quarter ending December 31, 2009:

Table A

Type	Audits Completed	Audit Hours	Audit Deficiencies	Period Recoveries
TOT	48	2,184	\$829,902	\$330,077
Lease	4	191	\$6,758	\$915
Franchise	1	140	\$16,651	\$0
Requested (BTax)	6	15	\$5,772	\$7,094
Total	59	2,530	\$859,083	\$338,086

cc: Elizabeth Correia, Financial Operations Manager